

SME Finance Working Group Meeting

22 July, 2021



Agenda

■ Introductions

Local Content Guarantee Fund

Presentation of AFD's EURIZ Guarantee

Discussion

Introductions



ASSOCIAÇÃO MOÇAMBICANA DE BANCOS

Bernardo Aparício
Corporate and Investment Banking
ABSA



Ryno Byleveldt
Senior Investment Officer
Agence Française de Développement

Agenda

Introductions

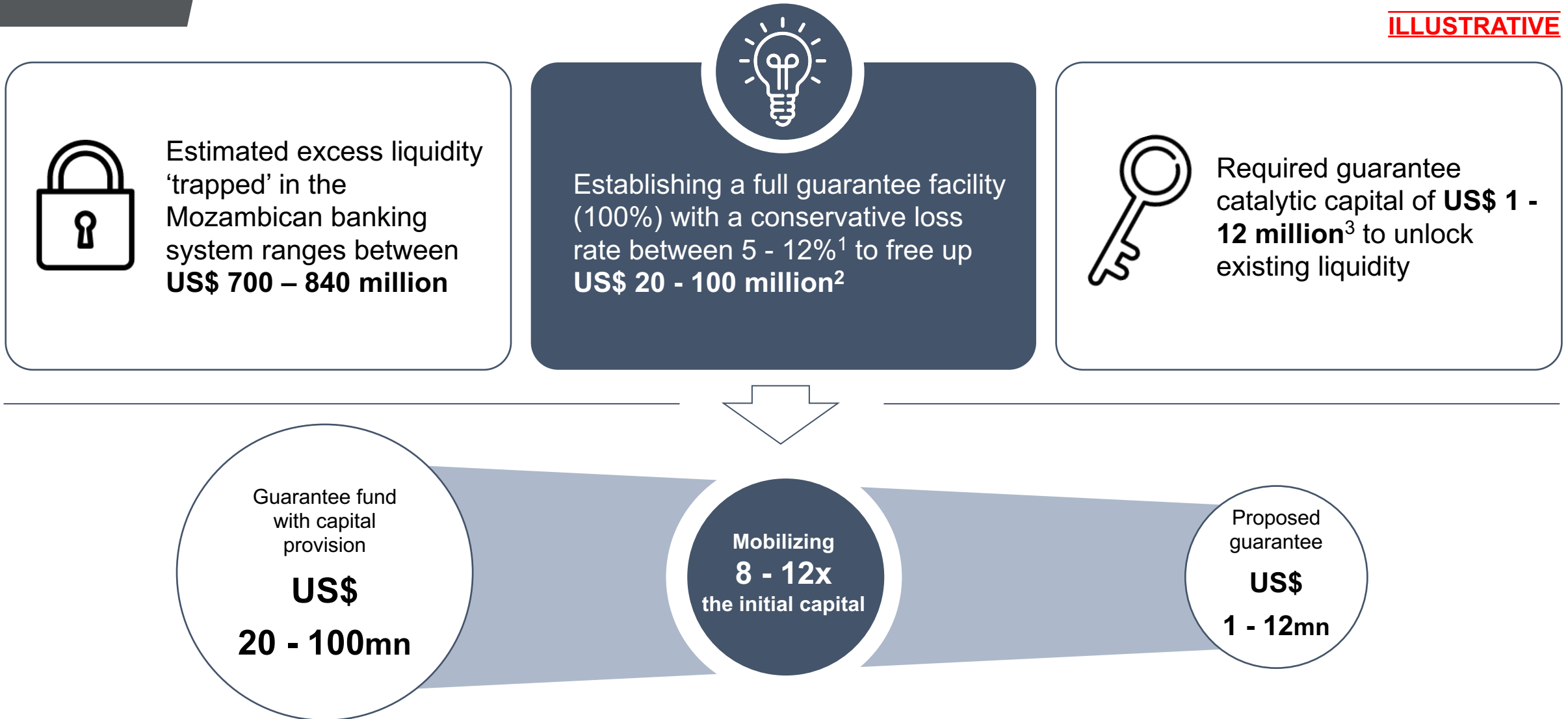
Local Content Guarantee Fund

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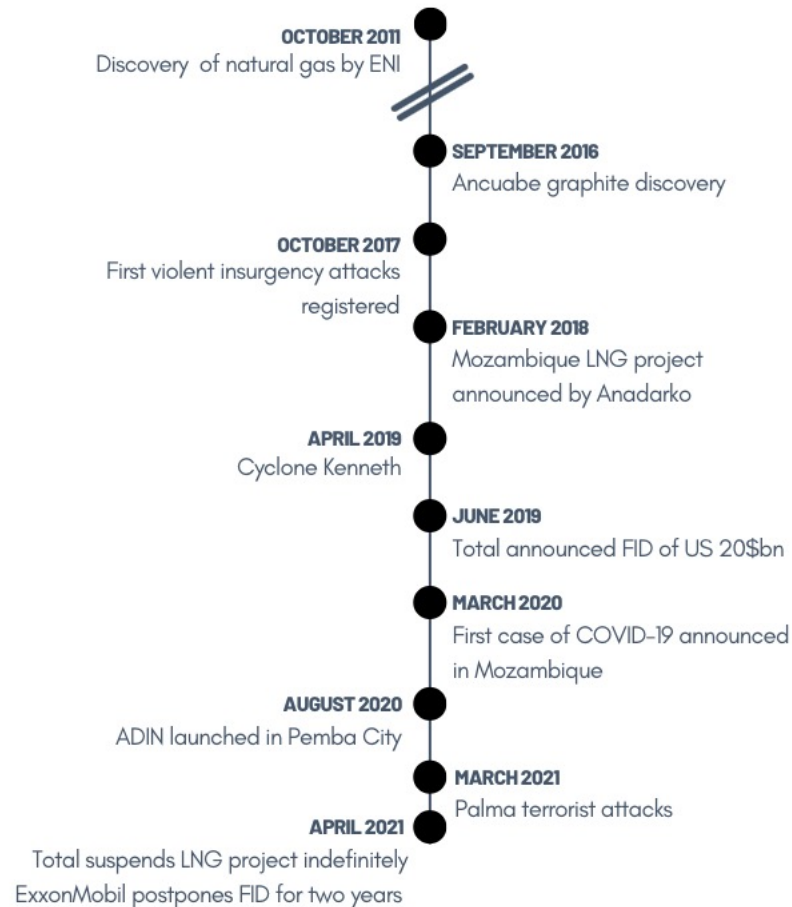
The initial concept: A guarantee facility meant to unlock excess commercial bank liquidity as a result of COVID

ILLUSTRATIVE



The change in concept: Recent events have shifted SME financing needs, particularly in the North

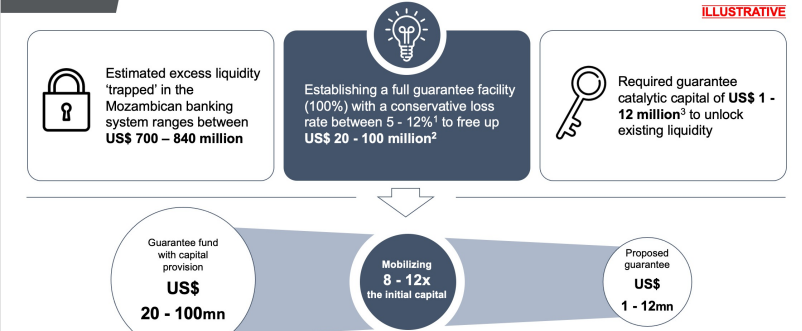
Recent events driving private sector needs...



... have shifted the focus of the facility

COVID Response Facility

The initial concept: A guarantee facility meant to unlock excess commercial bank liquidity as a result of COVID



MSP ¹Assumption of 5% for corporates and 12% for MSMEs/SMEs, the estimates are conservative given that 12% is almost twice the NPL at the height of 2016 ²The range shown is representative of the minimum and maximum parameters that are proposed in the high-level design on slide 9 ³The range is an illustrative calculation based on the respective loss rates

Local Content Guarantee Fund

Proposed Guarantee Fund: Purpose and Structure

Purpose



To create **additionality in capital provision** by de-risking lending to Mozambican companies who are traditionally outside of the risk appetite of commercial lenders

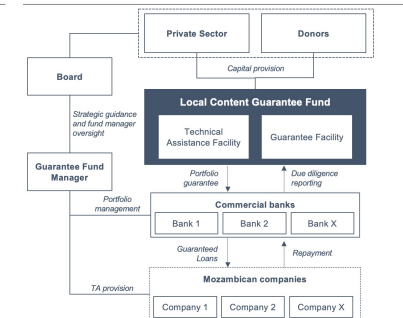


To catalyze substantial commercial capital compared to guarantee facilities in the market today through a **multi-donor, multi-banking approach**



To invest in more **bankable local content** through the provision of technical assistance and a dedicated fund manager incentivized to reduce defaults

Structure

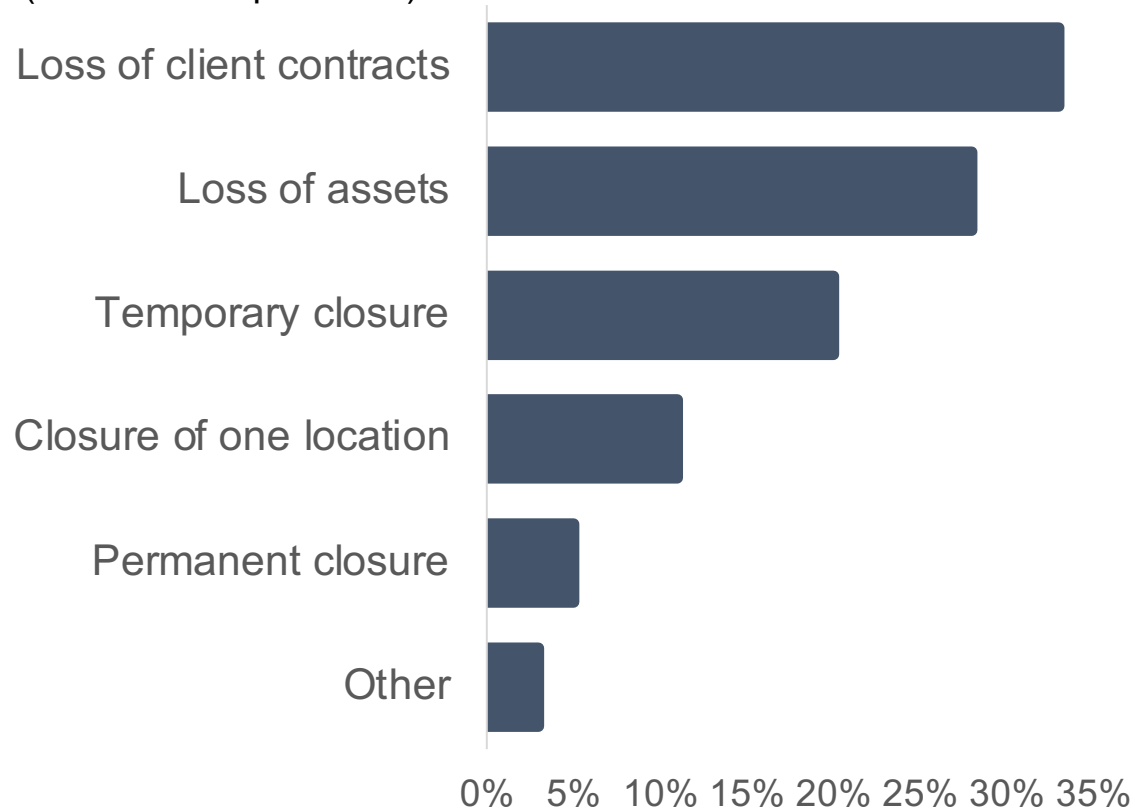


MSP

Current state of the CD private sector: Over 200 companies surveyed by MSP to help chart the path forward

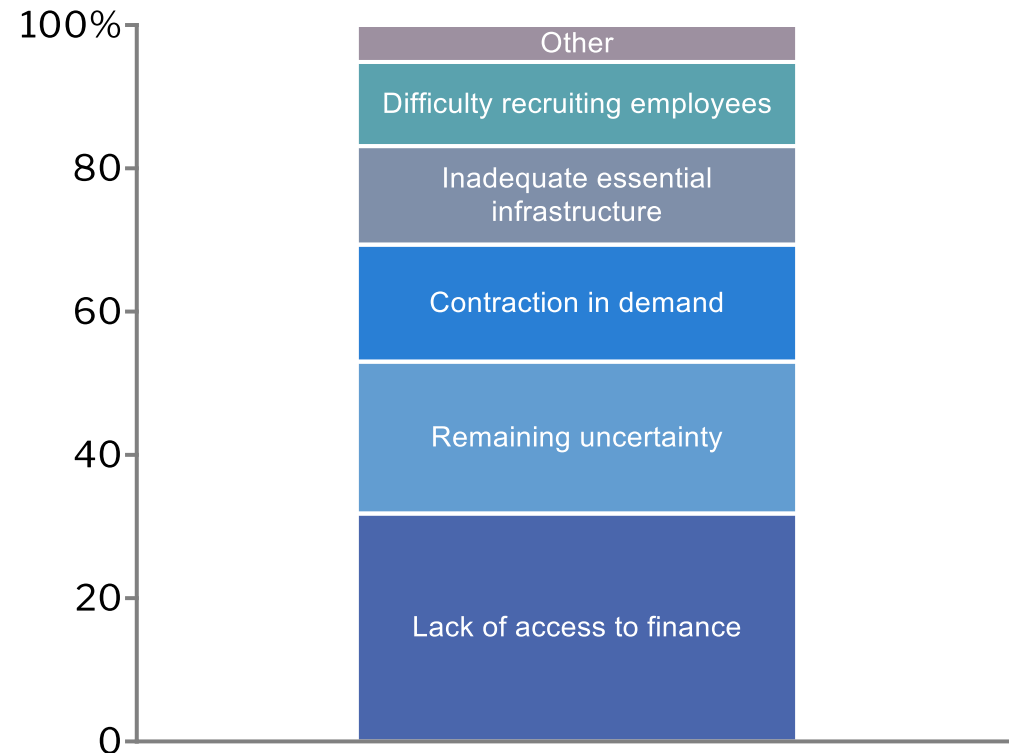
CD based companies were massively impacted by recent events

Reported impacts of insurgency
(% of total respondents)



Access to finance highlighted as greatest barrier to recovery

Reported principal barriers to private sector recovery in Cabo Delgado
(% of total responses)



Proposed Guarantee Fund: Purpose and Structure

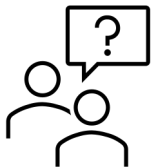
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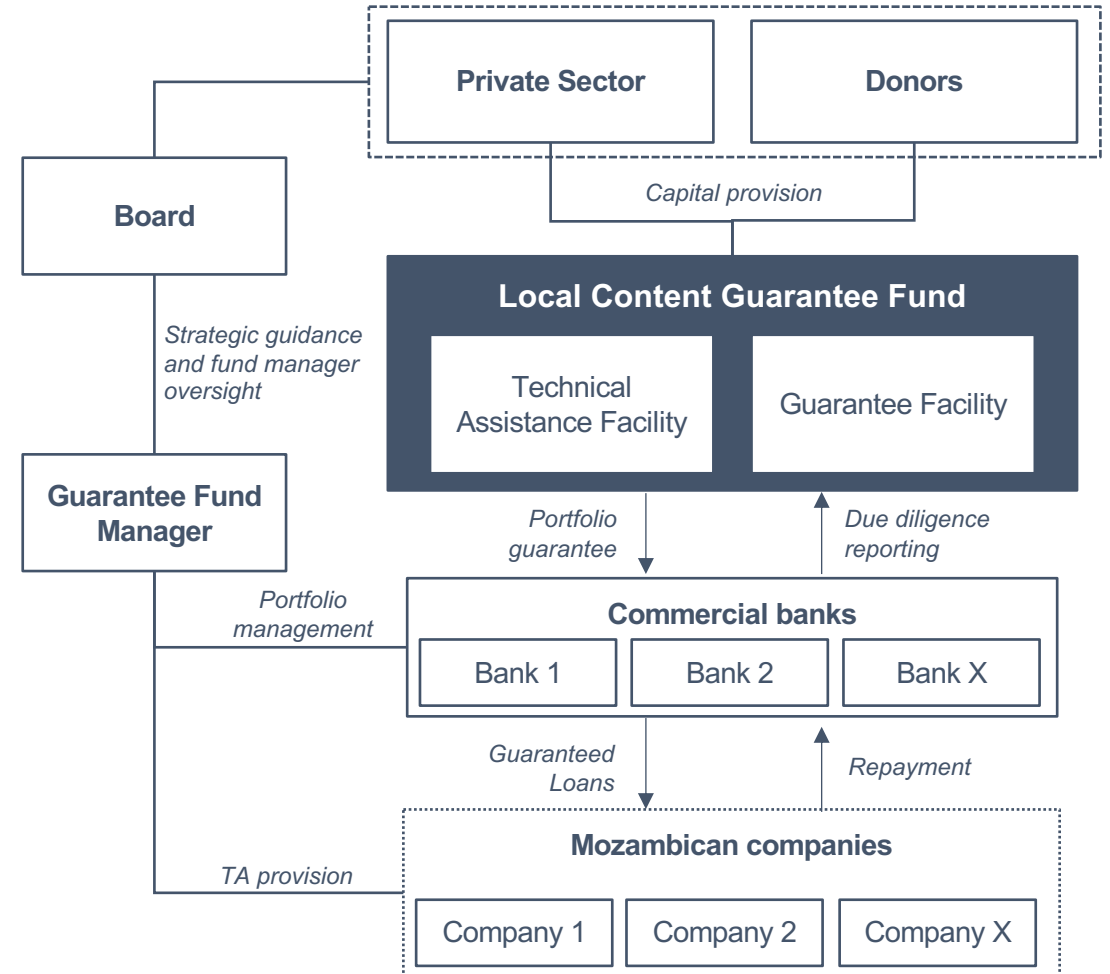


To catalyze substantial commercial capital compared to guarantee facilities in the market today through a **multi-donor, multi-banking approach**



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Structure



Guarantee Fund: Next Steps



- Incorporate any feedback received in today's session
- Model to be developed to understand the dynamic between expected losses/portfolio sizes

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PRESENTATION OF EURIZ GUARANTEE



AFD and PROPARCO AT A GLANCE

- AFD (100% owned by the French State) is a specialized financial institution and through its AA credit rating, aims to support public sector operations in developing countries.
- The group is present in more than 80 countries (Africa, Asia, South America, Mediterranean region, Overseas)
- PROPARCO is a subsidiary of AFD focused on private sector development and provides a wide range of financial instruments for development:
 - Loans,
 - Trade finance,
 - Green bonds,
 - Equity,
 - Guarantees (ARIZ guarantees are managed by PROPARCO in the name and on behalf of AFD)
- Group commitments were €12,1 bn in 2020

WHY GUARANTEES?

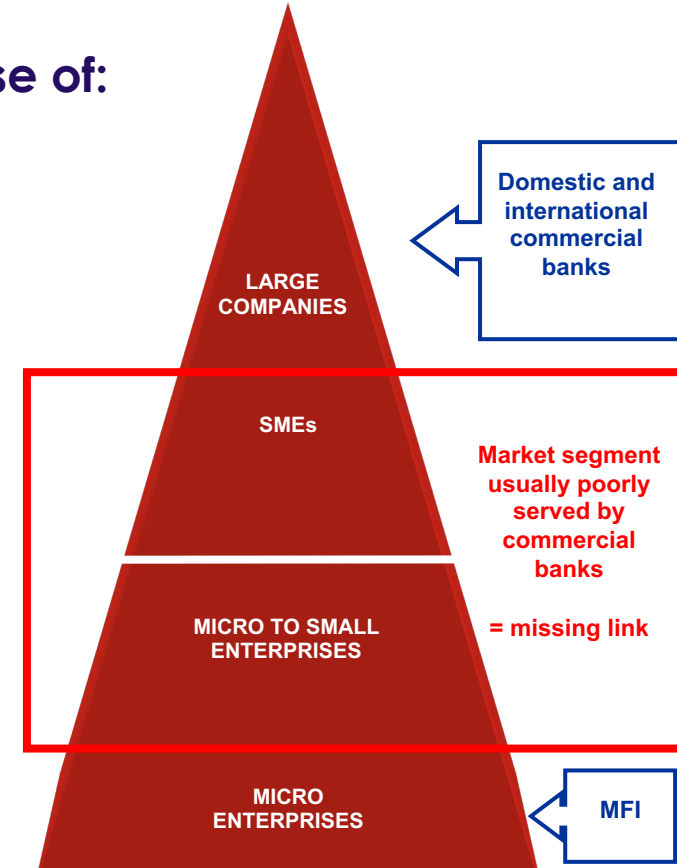
- **SME financing needs are poorly served because of:**

- **SME limits:**

- Lack of formalization
- Lack of management competencies
- Low level of equity
- Little collateral

- **Financial institution limits:**

- SME market considered too risky
- Internal organization, risk analysis methods and tools mainly adapted to corporates or microenterprises
- Costly collateral enforcement procedures

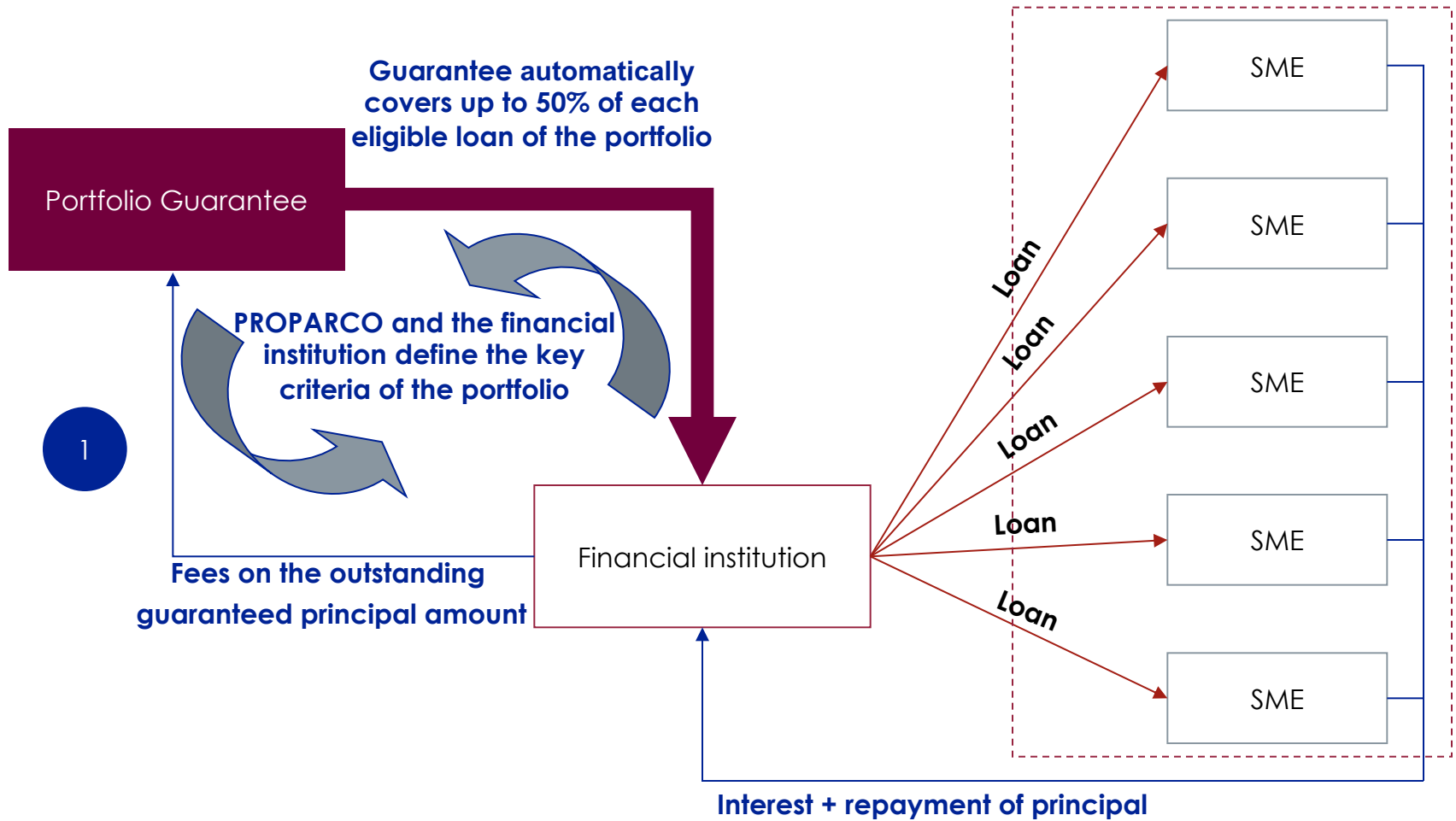


- **Main objective of portfolio guarantees is to provide an answer to the missing link of mesofinance**

- It offers a flexible, convenient and attractively priced risk-sharing mechanism to financial institutions to facilitate loan access for SMEs and MFIs

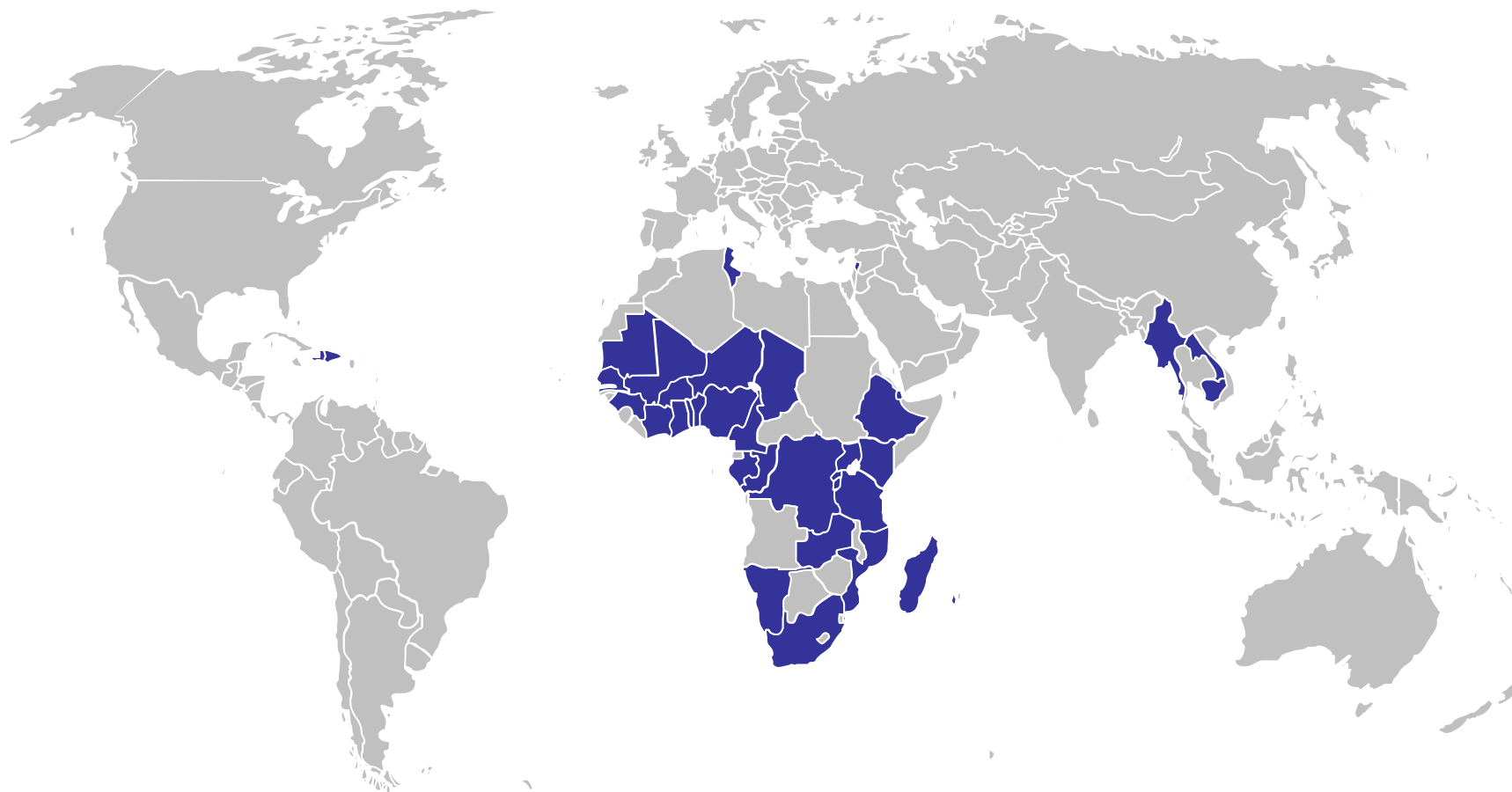
PORTFOLIO GUARANTEE

2

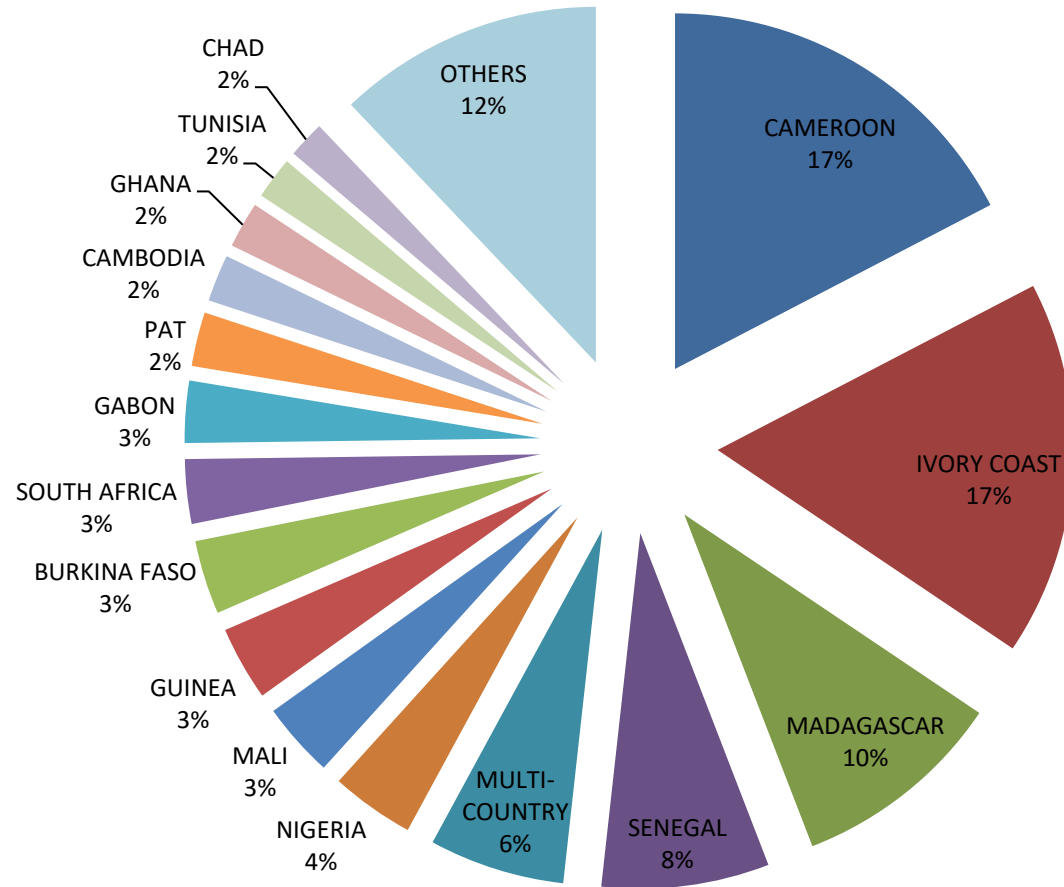


GUARANTEE OPERATIONAL PERFORMANCE SINCE 2008

MORE THAN €1.1 bn GUARANTEES GRANTED TO SMEs IN 42 COUNTRIES – 91% IN AFRICA



% OF GUARANTEES GRANTED SINCE 2008 BY COUNTRY



EURIZ PORTFOLIO GUARANTEE

- EURIZ is a portfolio guarantee dedicated to SMEs with an high developmental impact :
 - Green SMEs
 - **Renewable energy** (biomass, geothermal, hydro, solar, wind, ocean)
 - **Energy and energy efficiency** (cogeneration, energy distribution for renewables, energy efficient products, industrial energy efficiency, smart grid, etc.)
 - **Green transports** (rail, urban rail/metro, electric vehicles, hybrids, alternative fuel vehicles, bus rapid transit, bicycles, biofuels, biofuels for aviation, transport logistics, etc.)
 - **Adaptation** (adaptation of infrastructure, conservation, bio-system adaptation, disaster prevention/risk management, etc.)
 - **Waste, green buildings, green products and materials, carbon capture and storage, water, environment protection, sustainable land management**
 - Women-owned SMEs
 - Youth (less than 25 years old)-owned SMEs
 - Start-up (created less than 3 years ago)
 - Health SMEs
 - Educational SMEs
 - Agricultural SMEs
 - Digital SMEs
 - Social business structures

EURIZ PORTFOLIO GUARANTEE

Target	<p>Any medium- and long-term loan, leasing agreement, guarantee for very small businesses, SMEs, professionals, individual entrepreneurs, MFIs with high developmental impact : green SMEs, women, youth, start-up, health, education, agriculture, numeric, social business</p> <p>Silent guarantee</p>
Eligible loans (non-exhaustive list)	<p>Loan maturity from 1 to 12 years</p> <p>Principal amount of the loan from €5 K to €1 M by borrower</p> <p>Cumulated guarantee on a loan cannot exceed 75%</p>
Amount of the portfolio guarantee	To be defined with the bank
Percentage of cover	EURIZ covers a maximum of 70% of each individual loan in the portfolio
Guarantee period	Time allowed to include eligible loans in the portfolio is 24 months
Risks covered	<p>The guarantee covers a maximum of 70% of the final loss on the defaulting loan, defined as follows:</p> <ul style="list-style-type: none"> - Principal outstanding amount - all amounts recovered by other guarantee calls or by security interest enforcement proceedings as mentioned in the loan agreement
Fees	<p>Appraisal fee: 1% on the portfolio guarantee amount</p> <p>Annual guarantee fee: (1.47%) on the outstanding amount of the loan considering 70% cover ([2.1%] on the outstanding guaranteed amount)</p>



THANK YOU FOR YOUR ATTENTION



Your contact at Johannesburg regional office :

Ryno Byleveldt

byleveldtr@afd.fr

www.proparco.fr

#MondeEnCommun
AGENCE FRANÇAISE DE DÉVELOPPEMENT

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Discussion

- Why is a multi-donor, multi-bank guarantee facility managed by a 3rd party going to be better at funneling Commercial Bank capital to SMEs than any of the current off the shelf products?
- Purpose of the Funds
 - How can we ensure that SMEs financing needs are met through these vehicles in a cost effective and efficient way?
 - How can we ensure/prove that loans are going out to companies that currently sit outside the Bank's risk appetite?

THANK YOU!
OBRIGADO!

